

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Fortress Bank of Cresco, Cresco, Iowa**, prepared by the **Federal Reserve Bank of Chicago** as of **May 11, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated **Satisfactory**.

Management is responsive to identified needs within the community and offers credit products and services designed to meet those needs. The bank is predominately a real estate lender which is consistent with the primary credit needs of the community. The results of this evaluation indicate that the bank is adequately serving the credit needs of its community. The loan-to-deposit ratio is satisfactory and the majority of loans sampled were made within the assessment area. An analysis by applicant income based on 1990 U.S. Census data of a sample of loans revealed that lending to low- and moderate-income individuals is reasonable and lending to small businesses/farms within the assessment area is strong. All geographies located in the assessment area are classified as middle-income; therefore, an evaluation of the geographic distribution of loans based on geography income levels was not necessary. A majority of the agriculture and commercial loans are in amounts of \$100,000 or less, indicating a reasonable distribution of loans to small business and small farms. There were no CRA- related complaints received by the bank since the previous examination.

DESCRIPTION OF INSTITUTION

Fortress Bank of Cresco (Fortress Bank), with total assets of \$45,590,000 as of December 31, 1997, is a De Novo bank, which commenced operations on August 19, 1996. The bank was formerly a branch of Boatmen's Bank of North Iowa (Boatmen's), Mason City, Iowa. The bank

is now a wholly owned subsidiary of Fortress Bancshares, Inc. (Fortress Bancshares), Cresco, Iowa. In conjunction with the purchase of Fortress Bank, Fortress Bancshares also acquired Fortress Holdings, Inc., f/k/a Fortress Bancshares, Inc., Hartland, Wisconsin, and its two wholly owned subsidiary banks, Fortress Bank of Westby, Westby, Wisconsin, and Fortress Bank of Houston, Houston, Minnesota. The acquisition was structured in this manner to allow Fortress Bancshares to acquire banking assets in Iowa. Iowa law does not allow a bank holding company based outside of Iowa to acquire institutions in Iowa unless the bank has been in continuous operation for at least five years. Iowa law determines the organization's home base by the top tier holding company.

The bank's main office has a drive-up facility and one 24-hour Automated Teller Machine (ATM) which is located at the main entrance to the bank. The bank offers a variety of deposit products and services, as well as residential real estate, consumer, commercial and agricultural loans. The bank is predominantly a real estate lender. Based upon information contained in the December 31, 1997 Uniform Bank Performance Report (UBPR), 65.7% of the bank's loan portfolio is secured by real estate, with 33.2% of real estate loans secured by one-to-four family residences and 26.5% secured by farmland. The bank also is a strong agricultural lender, with 17.7% of its loan portfolio in agricultural production loans. Commercial/industrial and consumer loans comprise the remainder of the bank's loan portfolio, 9.8% and 6.6%, respectively.

The bank's primary local competitors include Cresco Union Savings Bank and Community Federal Bank, f/k/a Liberty Bank & Trust. Additional competition is provided by financial institutions located in the surrounding communities.

The bank promotes economic revitalization and growth, consistent with its size, financial capacity, location and current economic conditions. There are no legal or regulatory impediments that would prevent the bank from meeting its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is defined as the counties of Howard and Winneshiek. Cresco is located at the eastern edge of Howard County, with Winneshiek County adjacent to the east. Cresco is located in the northeastern portion of Iowa near the Minnesota border, approximately 70 miles southwest of LaCrosse, Wisconsin, and approximately 180 miles north east of Des Moines. The assessment area is comprised of eight block numbering areas (BNAs) 9601.00, 9602.00, 9603.00, which are contained in Howard County, and 9501.00, 9502.00, 9503.00, 9504.00, 9505.00 which comprise Winneshiek County, all of which are middle-income.

According to the 1990 U.S. Census data, the population in the bank's assessment area is 30,656. The racial makeup of the population in the assessment area is as follows: Whites 99.0%, Asian 0.7%, Hispanics 0.2%, Blacks 0.1%, and American Indians not statistically measurable. In addition, 25.3% of the assessment areas population is 17 years of age or younger and 17.4% is 65 years of age or older, in comparison to 26.0% and 17.8% respectively, for nonmetropolitan Iowa.

The assessment area's housing market consists of 11,881 total housing units: 68.7% are owner occupied, 24.8% are rental units, and 6.5% are vacant. The median housing value in the assessment area is \$41,358 and approximately 54.4% of the assessment area's housing stock was built prior to 1950. In comparison, the median housing value for nonmetropolitan portions of the state of Iowa is \$38,521, with 48.9% of the housing stock built prior to 1950. Median monthly rent for the assessment area is \$262, compared to \$292 for rural Iowa.

The median family income is \$27,858 for the assessment area, \$31,659 for the State of Iowa, and \$29,303 for the nonmetropolitan portions of Iowa. The breakdown of total families in the assessment area, by income level, is as follows: low income 18.4%, moderate income 20.1%, middle income 27.8%, and upper income 33.7%.

An affordability ratio can be developed by dividing the median household income by the median household value for a given area or group of geographies. This ratio is useful in comparing housing costs for different areas. An area with a higher ratio generally has more affordable housing than areas with lower ratios. According to the 1990 U.S. Census data, the affordability ratio for the assessment area was .56% in comparison to .63% for nonmetropolitan Iowa.

Manufacturer and manufacturer-related industries comprise the economic base of Howard and Winneshiek Counties along with agricultural-related activities. Major employers with 50 or more employees in the area include the following:

EMPLOYER	LOCATION	# OF EMPLOYEES	PRODUCT/SERVICE
Featherlite	Cresco	900	Trailer manufacturing
Donaldson's Co.	Cresco	400	Air filter manufacturing
Alum Line	Cresco	60-80	Aluminum products manufacturing
Regional Health Services of Howard Co.	Cresco	300	Health care services

The local economy appears to be improving. According to the Iowa Department of Employment Services, Howard and Winneshiek Counties had unemployment rates of 5.0% and 5.9%, respectively as of March 1997 and 4.2% and 5.2%, respectively as of March 1998. These ratios are slightly higher than the averages reported by the State of Iowa of 4.2% and 3.2% for March 1998.

The above data demonstrates that the assessment area has a stable and improving economy where income and housing values are higher in comparison to all of nonmetropolitan Iowa. The affordability ratio shows that housing may be less affordable in the assessment area in comparison to nonmetropolitan Iowa.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

This was the first examination for compliance with fair lending laws and regulations by this Reserve Bank since becoming a member of the Federal Reserve System. A sample of the bank's loans and denied applications were reviewed to determine whether loan policies and lending standards were in compliance and implemented on a fair and equitable basis. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

LOAN-TO-DEPOSIT RATIO

Fortress Bank of Cresco's loan portfolio was reviewed to evaluate its lending volume, loan mix, and the bank's performance in comparison to its peer group and local competitors. A review of the bank's consolidated reports of condition for the four quarters ending December 31, 1997 revealed an average loan-to-deposit ratio (LTD) of 71.2%. The following chart reflects the bank's net loan-to-deposit ratios for year-end 1996 and 1997, as well as the respective LTD ratios for both the bank's local competitors and peer group.

Bank/Location Assets as of 12/30/97	December 1996	December 1997	Four Quarter Average LTD Ratio
Fortress Bank of Cresco Cresco, IA \$45,590,000	65.3%	74.5%	71.2%
Cresco Union Savings Bank Cresco, IA \$150,990,000	77.5%	81.0%	83.6%
Community First N.B. Decorah, IA \$158,347,000	70.0%	81.8%	81.2%
Security Bank & Trust Co. Decorah, IA \$121,379,000	70.7%	73.3%	75.0%
PEER GROUP	61.6%	64.6%	64.1%

As the preceding chart illustrates, the bank's LTD ratio reflects an increase of 9.8% since 1996. Overall, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Lending in the Assessment Area

A sample of loan originations for a six-month period, from October 1, 1997 to March 31, 1998, was utilized to determine the extent of lending within the assessment area. The sample consisted of direct installment, real estate mortgages, and agriculture and commercial loans. The review of the loan sample revealed the following level of lending within the assessment area:

LOAN TYPE	TOTAL # OF LOANS SAMPLED	# OF LOANS WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Direct Installment	154	142	92.2
Real Estate Mortgages	20	19	95.0
Agriculture	117	103	88.0
Commercial	60	54	90.0
Grand Totals	351	318	90.6%

As the preceding chart illustrates 90.6%, or a majority of sampled loans, by product and in aggregate, were made to borrowers within the assessment area. Overall, the level of lending within the assessment area, as evidenced by the examination loan sample, is reasonable and exceeds the standards for satisfactory performance. This data is also supported through discussions with community representatives, who indicated that area credit needs were being met.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

A six-month loan sample, from October 1, 1997 to March 31, 1998, of 160 real estate and direct installment loans were analyzed to determine the bank's loan distribution among borrowers of different income levels. Lending was analyzed in the context of the income distribution of families in the assessment area: 24.8% low-income; 16.3% moderate-income; 21.9% middle-income; and 37.0% upper-income families.

The review of the loan sample revealed the following distribution among borrowers of different income levels:

LOAN TYPE	LOW- AND MODERATE-INCOME \$000's and #	MIDDLE-INCOME \$000's and #	UPPER-INCOME \$000's and #	TOTAL \$000's and #
Real Estate	\$5 1	\$311 8	\$504 10	\$820 19
Direct Installment	\$155 33	\$281 42	\$829 66	\$1,265 141
Total Dollars	\$160	\$592	\$1,333	\$2,085
Total Loans	34	50	76	160

As the chart illustrates, 21.3% of loans sampled were to low- and moderate-income borrowers. These percentages are below the make-up of the assessment area, as defined by the 1990 U.S. Census. Low-income families represent 24.8%, and moderate-income families represent 16.3% of the total population of the assessment area.

Small Farm and Small Business Loans

A six-month sample, consisting of 175 commercial and agricultural loans totaling \$3,554,618 was reviewed. Of the total loans, 167 loans or 95.4% totaling \$3,409,960 were to small farms and small businesses with annual revenues of less than \$1.0 million. According to the June 30, 1997, Consolidated Report of Condition, the bank had 92 commercial loans and 192 agricultural loans outstanding; all or substantially all of these loans were in amounts of \$100,000 or less.

The distribution of loans is reasonable when compared to the low- and moderate-income family distribution in the assessment area. The six-month loan sample revealed a moderate loan penetration among individuals of different income levels, and a strong penetration within farms and businesses of different revenue sizes. Overall, the bank's distribution of loans among borrowers of different incomes and to businesses and farms of different sizes meets the standards for satisfactory performance.

Geographic Distribution of Loans

There are no low- or moderate-income geographies within the bank's assessment area. Therefore, analysis of loan distribution within geographies was not conducted.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.